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Tax alerts - Key announcements of interim Budget 2024

Interim Budget 2024

Policy and tax reforms impacting the Financial Services Sector

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The Interim Union Budget 2024[1], presented by the Hon'ble Finance Minister, Ms Nirmala Sitharaman, provides a direction towards the Government's vision to transform India into a developed nation (Viksit Bharat) by 2047, guided by the principles of 'reform, perform, and transform'.

The Interim Budget presented today continues on the path of fiscal consolidation and exhibits a strong focus on increase in capital expenditure, employment creation and achieving high economic growth.

The Interim Budget proposes to retain the same tax rates for direct taxes and indirect taxes including import duties.

[1] The Union Budget presented today is an Interim Budget of the Government of India, given the impending elections likely to be held in the month of May 2024.

How does the budget impact Financial Services sector?

Key Policy Proposals

- To scale up research and innovation a corpus of INR1,00,000 crores (~ US$ 11.90 b) is proposed to be established with 50-year loan, by provide long-term financing or refinancing with long tenors and low or NIL interest rates.
- A provision of INR75,000 crores as 50-year interest free loan is proposed to support the milestone-linked growth and development enabling reforms by the State Governments.
- Withdrawal of tax demands up to 10,000 for tax years 2010-11 to 2014-15 and up to INR25,000 for prior tax years.

Key amendments

As anticipated, most changes on a Direct tax standpoint are restricted to extension of the timelines of certain provisions which had a sunset date of 31 March 2024. We have summarized the same as under:

- **Extension of sunset date related to Investment Division of non-resident IFSC Banking Unit**
  - Income from foreign securities, capital gains from Indian securities (other than equity shares), capital gains from securities listed on IFSC exchanges, business income from securitisation trust was exempt from tax, provided the investment operations are commenced on or before 31 March 2024 by such entities.
  - It is proposed to extend the timeline to commence such operations from 31 March 2024 to 31 March 2025.

- **Extension of sunset date related to Non-residents leasing aircraft/ ship to IFSC unit**
  - Income of a non-resident by way of royalty or interest on account of lease of an aircraft/ ship paid by a unit of an IFSC was exempt from tax, provided that the operations of such aircraft/ ship leasing IFSC units are commenced on or before 31 March 2024 by such entities.
  - It is proposed to extend the timeline to commence such operations from 31 March 2024 to 31 March 2025.

- **Extension of sunset date related to aircraft/ ship leasing companies in IFSC**
  - Income arising from transfer of a leased aircraft or ship by an IFSC unit is exempt from tax, provided that the operations of such aircraft/ ship leasing IFSC units are commenced on or before 31 March 2024 by such entities.
  - It is proposed to extend the timeline to commence such operations from 31 March 2024 to 31 March 2025.

- **Extension of sunset date related to investments made by SWFs/ PFs**
  - Subject to meeting prescribed conditions, income earned by SWFs, PFs and a wholly owned subsidiary of Abu Dhabi Investment Authority which is in the nature of dividend, interest, specified income from units of business trust, or long-term capital gains arising from such investments is tax exempt, provided the investment is made on or before 31 March 2024 by such entities.
  - It is proposed to extend the timeline for making the investment in the specified entity from 31 March 2024 to 31 March 2025.

- **Changes to TCS provisions**
  - The FA 2023 amended provisions relating to TCS on remittances under LRS and purchase of OTPP.
  - The amendments enhanced TCS rate on LRS from 5% to 20% (except in case of remittances for education and medical purposes) and removed threshold limit of INR700,000. It also enhanced TCS rate on sale of OTPP to 20%. This caused widespread concern and ambiguity amongst various stakeholders who made representations and suggestions to the CG.

- In deference to the representations by various stakeholders, the Finance Ministry issued Press Release on 28 June 2023 announcing the decision to make, inter alia, following changes in TCS on LRS and OTPP:
  - Restoration of threshold of INR700,000 to attract (a) TCS on LRS and (b) TCS at higher rate of 20% on sale of OTPP
  - Deferral of effective date of higher TCS rate from 1 July 2023 to 1 October 2023
- The Finance Bill 2024 codifies the above announcements. Accordingly, the TCS rates w.e.f. 1 October 2023 are as follows: -

Nature of LRS remittance	Rate w.e.f. 1 October 2023
LRS for education financed by loan from a qualifying financial institution	▶ NIL up to INR700,000 ▶ 0.5% above INR700,000
LRS for medical treatment/education (other than financed by loan from qualifying financial institution)	▶ NIL up to INR700,000 ▶ 5% above INR700,000
LRS for other purposes	▶ NIL up to INR700,000 ▶ 20% above INR700,000
Purchase of OTPP	▶ 5% till INR700,000 ▶ 20% thereafter

Note – The threshold of INR700,000 is common for all LRS remittances and not for each category tabulated above.

Key Indirect tax amendments

- Input Service Distributor provisions for distribution of input tax credits has been made mandatory (date to be notified). This is aligned with the recommendation made in the 50th GST Council meeting; In addition, Amendments are proposed to the definition of Input Service Distributor and related sections under the CGST Act.
- The principles for determining the basis of distribution of Input tax Credit by ISD, the periodicity, documents etc. are yet to be proposed under the CGST Act read with the rules made thereunder.

Conclusion

The Interim Budget 2024 has been presented in a dynamic economic environment with a constantly changing landscape owing to the global economic and geopolitical events.

The IFSC continues to be a focus area for the Government. The sunset clauses, relating to operations of investment division of OBUs, aircraft and ship leasing entities, have been extended by another year (up to 31 March 2025) which should provide a fillip to growth and investment opportunities in this sphere.

From a GST perspective, the changes proposed to the ISD provisions are likely to impact aspects such as characterisation of expenses between ISD vs cross charge, change management in relation to vendor contracts, impact on input tax credits at state level and corresponding increase in compliances, etc.

The next Budget for the year 2024 will be announced sometime in July 2024 post the elections in India. One does hope that some of the key asks of the industry like (a) Lower tax rate for foreign banks, (b) Relaxation of thin capitalisation rules for primary dealers and asset reconstruction companies, (c) Availability of concessional tax rate of 5% on interest income arising to FPIs from investment in debt securities issued by REITs/ InvITs, (d) Relaxation of withholding tax obligation on payments made to IFSC units claiming tax holiday, (e) Separate tax chapter outlining the taxation of units set up in IFSC; will be addressed in the first full Budget of the new Government. Also, one does expect that changes around BEPS would be announced then.

Glossary

BEPS - Base Erosion and Profit Shifting

CGST Act – Central Goods and Services Tax Act, 2017

FA – Finance Act

FPI – Foreign Portfolio Investor

GST – Goods and Services Tax

IFSC - International Financial Services Centre

ITA – Income-tax Act, 1961

InvITs - Infrastructure Investment Trusts

ISD – Input Service Distributor

LRS - Liberalised Remittance Scheme

NBFC - Non-Banking Financial Corporation

NR – Non-resident

OBU – Offshore Banking Unit

OTC – Over-the counter

OTPP - Purchase of Overseas Tour Program

PF – Pension Funds

REITs - Real Estate Investment Trusts

SWF – Sovereign Wealth Funds

TCS – Tax Collected at Source

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